

Key questions and answers from Business briefing (Tagging technology innovation)

(January 11, 2023)

1. How much gross profit margin does your Automation Business have? What measures do you have in place to improve it?

- The products we offer in our automation business are hardware, such as print and apply system, consumables, and software to run the system. We also provide maintenance support for the hardware and software. In terms of numbers, we track those for hardware and software businesses.
- The gross profit margin of the automation business in Japan is lower than that of our Japan Business as a whole, which was 46.5% in FY 21. This is attributed to three factors: Compared with label printers, we use (1) greater number of components in automation systems, (2) produce less of them, and (3) offer many partner products as part of the solution.
- To improve our gross profit margin, we will capture the strong market demand for automation, and create/sell packaged solutions targeted at solving common pain points among customers.

2. With the global RFID market expected to expand, will SATO be able to gain market share? What is your advantage over the competition?

- Players in this market include manufactures of readers, printers and consumables. The current market size is estimated at approximately 600 billion yen with the expected annual growth rate of more than 10%, though the growth rate may be affected by some factors, including the supply of semiconductors. Looking at the current market by end users, retailers account for more than 90%. We expect use of RFID in the manufacturing, health care, and food markets -- markets where SATO has strong presence -- will grow in the near future.
- We have three main competitive advantages, which we will leverage, particularly in the manufacturing segment where growth is expected.
- First, we have a global direct sales network, which covers 26 countries. This is important, as global companies typically want to ensure a certain degree of consistency in the RFID systems and technologies they use across different countries and regions.
- Second, we design and produce our own tags and printers. Due to the nature of the RFID technology, readability is one of the common challenges the users face. We can support such users by improving the design of the tags to suit the objects the tag is attached to and the environment they are used in to improve the readability.
- Thirdly, we have the knowledge we have gleaned over the years on the use of RFID tags and systems. Such knowledge is invaluable in ensuring the RFID readability and smooth operation of

the system. We can be your consultant, so to speak, selecting an optimal reader, give tips on its use, and how the tags should be attached to objects, and make sure everything works as it is supposed to.

3. Could you share your thought on the future of the RFID market in Japan?

- RFID is a technology born overseas. As such, we expect the RFID market to expand faster abroad, with early take-up of the technology as well as the take-off. From the perspective of the auto-ID technology as a whole, including the barcode, the manufacturing market is larger than the retail market in Japan. For many customers in the manufacturing, RFID technology is now at the trial or PoC phase.
- The demand is steadily rising, with more Japanese global companies considering adoption of RFID systems. SATO is optimally positioned to cater to the demand, as it has historically been strong in the manufacturing market.

4. Currently, your RFID manufacturing capabilities are limited only to Japan. As the number of overseas projects increases, what is your plan for supporting these projects?

- We think RFID labels should be manufactured close to where the demand is meet the needs of customers who want to build a digital supply chain. We will deliberate on where, and how, we should produce RFID labels as we draw our business strategy for FY 23 and beyond.

5. How much growth potential does the automation market have? Which are the markets your competitors excel?

- [As for the growth potential,] We think there is plenty of room for growth as many companies still attach labels manually.
- Often, these companies are customers of ours, which means there are a lot of sales opportunities for us.
- [As for the market where competitors excel,] some competitors of ours have traditionally been strong in applications where weighing scales are used in combination with labeling equipment in the food market, for example. The barrier to enter this segment is high. In such cases, our strategy is to take a different approach to sales opportunities, by fulfilling customers' traceability needs, for example.

6. What are the key elements that your global customers appreciate when purchasing RFID solutions from you?

- The key is our capability to resolve customers' on-site issues through our "*Koto-uri*"* approach. We carefully listen to our customers to understand their operational problems and make sure that we not just provide the right solutions, but also ensure smooth working of the solutions at customer sites.
- Information on each customer case is shared thorough our CRM system so that our Global Market Strategy Departments and RFID Business Management and Development Department can effectively support sales representatives in each country. This kind of support is vital, as global companies, in particular, look to standardize their RFID operations across the globe.

* Koto-uri: Sales approach of selling not just the product but combinations of products in the form of solutions that include hardware, consumables, maintenance services and software, demonstrating ROI and other value propositions for the customer.

7. What percentage, in terms of sales, does packaged automation solutions account for in your automation business? To what extent do you think it will grow in the future?

- They represent approximately 30%. The demand for shipping labels, in particular, is rising, as people increasingly shift to e-commerce from the traditional shopping. We aim to raise the ratio of packaged solutions to 50% or more, and improve the business's profitability as well.